

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of California Water Service Company (U60W), a Corporation, for Authority to Recover Costs Associated with General Office Building Renovation.

Application 12-06-016
(Filed June 29, 2012)

DECISION ADOPTING JOINT SETTLEMENT AGREEMENT AND GRANTING CALIFORNIA WATER SERVICE COMPANY'S APPLICATION FOR AUTHORITY TO RECOVER COSTS ASSOCIATED WITH GENERAL OFFICE BUILDING RENOVATION**1. Summary**

This decision (1) approves the joint settlement agreement entered into between California Water Service Company and the Division of Ratepayer Advocates (now known as the Office of Ratepayer Advocates); and (2) grants California Water Service Company's Application for Authority to Recover Costs Associated with General Office Building Renovation, subject to the terms and conditions set forth below. The recoverable capital costs amount to \$5,734,400.00, which results in a revenue requirement increase of \$874,961.00. As explained, *infra*, in this decision, the increased monthly financial impact on California Water Service Company's metered and flat-service customers is less than one percent.

This proceeding is closed.

2. Background**2.1. The Application**

On June 29, 2012, California Water Service Company (Cal Water) filed this Application for Authority to Recover Costs Associated with a General Office

Building Renovation (Application). Specifically, Cal Water asserts that it renovated one of four buildings on its General Office Campus to better accommodate the Information Technology (IT) Department, the Human Resources (HR) Department, and the Customer Services (CS) Department. These costs are collectively referred to as the IT/HR Building Renovation Costs. The project itself is referred to as the IT/HR Building.

Cal Water also claims that it discussed this building renovation in both of its earlier general rate cases filed in 2007 and 2009, and that the Commission adopted a settlement provision allowing Cal Water to pursue recovery of the IT/HR Building Renovation Costs in a separate application.¹ According to Cal Water, the IT/HR Building Renovation costs total \$6,011,172, and that approval of Cal Water's request to recover these IT/HR Building Renovation costs would result in a revenue requirement increase of \$953,599.

2.2. Division of Ratepayer Advocate's (DRA) Protest

On August 6, 2012, DRA filed a protest to Cal Water's Application, claiming that the following issues merited further Commission consideration:

- Whether the \$6,011,172 in IT/HR Building Renovation Costs is reasonable and prudent;
- The accuracy of Cal Water's recording and reporting of the capital costs;
- The reasonableness and accuracy of Cal Water's calculation of capitalized interest costs and overheads;

¹ D.10-12-017, Attachment C (Further Amended Settlement) at C-470 and C-471.

- The propriety of allowing Cal Water to start recovering the revenue requirement for the IT/HR Building by implementing a surcharge that will be effective until the authorization of new rates from Test Year 2014 in Cal Water's General Rate Case (Cal Water's GRC);² and
- As a catch-all category, DRA asserts that it reserves the right to raise additional concerns that may arise during the course of its investigation.

2.3. Joint Prehearing Conference Statement

On October 29, 2012, Cal Water and DRA filed their Joint Prehearing Conference Statement wherein the parties agreed that the issues raised in DRA's Protests could be considered as appropriately within the scope of this proceeding.

2.4. The Prehearing Conference (PHC)

The PHC was held on November 6, 2012. Representatives from Cal Water and DRA attended.

2.5. Scope of the Proceeding

The Scoping Memo and Ruling identified the factual and legal issues for resolution as follows:

- Whether the \$6,011,172 cost is reasonable and prudent;
- Whether Cal Water's recording and reporting of the capital costs is accurate;

² A.12-07-007, entitled In the Matter of the Application of California Water Service Company (U60W), a California corporation, for an order 1) authorizing it to increase rates for water service by \$92,765,000 or 19.4% in test year 2014, 2) authorizing it to increase rates on January 1, 2015 by \$17,240,000 or 3.0%, and on January 1, 2016 by \$16,950,000 or 2.9% in accordance with the Rate Case Plan, and 3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

- Whether Cal Water's calculation of capitalized interest costs and overhead is reasonable and accurate; and
- Should Cal Water be allowed to start recovering the revenue requirement for this project by implementing a surcharge that will be effective until the authorization of new rates from its Test Year 2014 GRC.

3. Settlement Discussions, Settlement, and Joint Motion

Following the PHC, Cal Water and DRA engaged in settlement discussions that resulted in a settlement agreement being reached (Settlement). On March 4, 2013, Cal Water and DRA (Settling Parties) filed their Joint Motion to Adopt Settlement Agreement (Joint Motion). The assigned ALJ held off on ruling on the Joint Motion in the hope of ruling collectively on both the Joint Motion and the settlement that was being negotiated in the Cal Water GRC. However, since the Cal Water GRC settlement has not been agreed to by all parties and is currently being contested, we consider only the Joint Motion.

4. Summary of the Settlement

The Settlement is divided into three main components, which we discuss below.

4.1. Reclassification of Capital Costs

The following costs will be reclassified from capital to expense, thus reducing the total capital costs of the renovation from \$6,011,172 to \$5,734,400:

Description	Amount	Reclassification Category
Asbestos Removal	\$11,250.00	To Cost of Removal Expense
Interest Adjustment	\$64,617.00	To Expense
Other Costs	\$200,905.00	To Expense
Total	\$276,772.00	

As a result of this Settlement, Cal Water seeks the recovery of the following cost amount:

Project ID number 16992	\$6,011,172.00
Reclassified Costs	\$ (276,772.00)
Total	\$5,734,400.00

4.2. Implementation of Surcharges

To recover the \$5,734,400.00 in capital costs, Cal Water will implement a surcharge on customer bills until the final rates that the Commission adopts in Cal Water's GRC become effective. The surcharge for metered customers will be on the quantity charge, and will be the same for all districts. The surcharge for flat-rate customers will be a flat charge calculated for each district. Upon implementation of the final rates that the Commission adopts in Cal Water's GRC, the surcharge for the IT/HR Building Renovation Costs will be incorporated into the customer rates.

4.3. Adjustment of Costs in the Cal water GRC

The agreed-upon IT/HR Building Renovation Costs will be reflected in the new rates that the Commission adopts in Cal Water's GRC.

5. Implementation of the Settlement

The Settling Parties had proposed that within 30 days of a Commission decision approving the Settlement, Cal Water shall file a Tier 1 advice letter to implement the surcharges to begin recovery of the agreed-upon costs. However, since the advice letter filing called for is analogous to a rate-base offset, pursuant to General Order 96-B, a rate-base offset is accomplished *via* a Tier 2 advice letter. As such, we modify the Settlement to require Cal Water to file a Tier 2 advice letter.

6. Standard of Review for Settlements

Rule 12.1(d) of the Commission's Rules of Practice and Procedure provides that the "Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest." The proponents of a settlement have the burden of demonstrating that the settlement satisfies Rule 12.1(d).

The Commission favors the settlement of disputes. (D.11-05-018; D.07-05-060; and D.88-12-083, 30.) This policy supports many goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results. As long as a settlement is reasonable in light of the whole record, consistent with the law, and in the public interest, it should normally be adopted without alteration. (D.06-06-014; and D.90-08-068.)

Finally, if the moving parties assert that the Settlement is supported by all parties, then the Commission must confirm that the Settlement:

- a. commands the unanimous sponsorship of all active parties to the instant proceeding;
- b. that the sponsoring parties are fairly reflective of the affected interests;
- c. that no term of the settlement contravenes statutory provision or prior Commission decisions; and
- d. that the settlement conveys to the Commission sufficient information to permit us to discharge our future regulatory obligations with respect of the parties and their interests.³

³ D.92-12-019; and D.90-08-068, 37.

7. Application of the Standard of Review to the Settlement

7.1. The Settlement is Reasonable in Light of the Whole Record

The Settling Parties' evaluation of the issues leading to the Settlement is based on the Application, Protest, Cal Water's prepared testimony, Cal Water's response to DRA's discovery, the stipulated facts set forth in the Settlement, and the time spent by counsel for the Settling Parties in drafting the Settlement. These sources provide sufficient information to enable the Commission to approve the Settlement as reasonable; implement its provisions, terms, and conditions; and discharge its future regulatory obligations with respect to Ca Water. Specifically, in our review of the record, we conclude that:

- Cal Water has demonstrated a need for renovation of the IT/HR Building in order to increase employee workspace capacity;
- The IT/HR Building Renovation Costs were reasonably and prudently incurred;
- The renovated IT/HR Building became used and was useful at the end of 2011;
- The costs of renovating the IT/HR building should be recovered from ratepayers through a surcharge until new rates that the Commission adopts in Cal Water's GRC become effective; and
- To resolve this Application, the revenue requirement that the Commission adopts in Cal Water's GRC should reflect the capital costs for Project ID number 16992 in the amount of \$5,734,000.00.
- The monthly financial impact on Cal Water's metered and flat-service customers is identified as follows:

Metered Customers					
District	Metered Surcharge Per Ccf	Typical Ccf	Current Bill	New Bill	% Increase
Bakersfield	\$ 0.0042	21	\$ 45.85	\$ 45.94	0.19%
Bayshore	\$ 0.0077	12	\$ 60.02	\$ 60.11	0.15%
Bear Gulch	\$ 0.0079	23	\$ 121.55	\$ 121.73	0.15%
Chico	\$ 0.0039	20	\$ 32.61	\$ 32.69	0.24%
Dixon	\$ 0.0072	13	\$ 45.71	\$ 45.80	0.21%
East Los Angeles	\$ 0.0065	13	\$ 54.80	\$ 54.88	0.15%
Hermosa Redondo	\$ 0.0054	11	\$ 45.49	\$ 45.55	0.13%
King City	\$ 0.0067	13	\$ 44.28	\$ 44.37	0.20%
Livermore	\$ 0.0059	15	\$ 59.45	\$ 59.54	0.15%
Los Altos Sub.	\$ 0.0058	19	\$ 72.28	\$ 72.39	0.15%
Marysville	\$ 0.0060	10	\$ 34.16	\$ 34.22	0.18%
Oroville	\$ 0.0060	12	\$ 51.66	\$ 51.73	0.14%
Palos Verdes	\$ 0.0053	24	\$ 96.77	\$ 96.90	0.13%
Salinas	\$ 0.0070	11	\$ 37.80	\$ 37.88	0.20%
Selma	\$ 0.0036	23	\$ 41.35	\$ 41.43	0.20%
Stockton	\$ 0.0052	12	\$ 35.47	\$ 35.53	0.18%
Visalia	\$ 0.0036	24	\$ 34.66	\$ 34.75	0.25%
Westlake	\$ 0.0050	30	\$ 133.01	\$ 133.16	0.11%
Willows	\$ 0.0055	15	\$ 55.32	\$ 55.40	0.15%
L.Hughes/Leona					
Val.	\$ 0.0059	32	\$ 145.39	\$ 145.58	0.13%
Lancaster	\$ 0.0049	38	\$ 123.69	\$ 123.88	0.15%
Fremont	\$ 0.0171	10	\$ 66.02	\$ 66.19	0.26%
Dominguez	\$ 0.0041	12	\$ 41.79	\$ 41.84	0.12%
Kern River Valley	\$ 0.0244	7	\$ 75.34	\$ 75.51	0.23%
Lucerne	\$ 0.0284	4	\$ 54.94	\$ 55.05	0.21%
Coast Springs	\$ 0.1060	2	\$ 101.98	\$ 102.19	0.21%
Armstrong/Hawkins	\$ 0.0239	6	\$ 91.74	\$ 91.88	0.16%
Flat Service Customers					
District	Flat Surcharge		Current Bill	New Bill	% Increase
Bakersfield	\$ 0.1702		\$ 68.87	\$ 69.04	0.25%
Chico	\$ 0.1204		\$ 53.93	\$ 54.05	0.22%
Marysville	\$ 0.1262		\$ 72.37	\$ 72.50	0.17%
Oroville	\$ 0.0878		\$ 85.23	\$ 85.32	0.10%
Selma	\$ 0.1367		\$ 54.00	\$ 54.14	0.25%
Willows	\$ 0.1671		\$ 74.79	\$ 74.96	0.22%

We have reviewed the water bill increases have find them to be reasonable.⁴

7.2. The Settlement is Consistent with the Law

Finally, we note that Cal Water is correct in its assertion that the Commission specifically authorized Cal Water to seek recovery of its IT/HR Building Renovation Costs. Attachment C to D.10-12-017states:

ISSUE : Cal Water proposed a major expansion to the Information Technology/Human Resources Building at its San Jose General Office. The purpose of this expansion is to create workspace for anticipated new employees....The Parties [DRA and Cal Water] attended a mediation session regarding this project that Administrative Law Judge Victor Ryerson facilitated. The Parties were able to find common ground in this session and agree that, while there were still a number of differences of opinion, Cal Water would file a separate application for the Information Technology/Human Resources Building at its San Jose General Office.⁵

Thus, through D.10-12-017, this Commission invited Cal Water to avail itself of the application process as the appropriate procedural vehicle to seek approval of the Settlement.

⁴ The above-quoted table can be found in Attachment Two to the Joint Motion. The Joint Motion is attached to this decision as Appendix A.

⁵ C-470 and C-471.

Besides being procedurally proper, the Joint Motion is also consistent with California law and policy that allows a regulated utility to recover its reasonable costs so that it may provide its utility services safely and efficiently. Pub. Util. Code Section 451 states in part:

Every public utility shall furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities, including telephone facilities, as defined in Section 54.1 of the Civil Code, as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.

Thomas F. Smegal, Cal Water's Vice President of Regulatory Affairs and Corporate Relations, explained the ratepayer benefits attendant to the IT/HR Building Renovation Costs:

An insufficient workplace distracts employees from the primary goal of Cal Water which is to efficiently deliver safe and reliable water to ratepayers. While employees in the districts, particularly operational employees, have the most direct responsibility for this goal and are often the public face of Cal Water, the effectiveness of those employees is largely dependent upon a well-functioning, accessible, and responsive corporate operations. While all Cal Water employees are valued for their various and often vital contributions to the company's services, the employees in the renovated GO building, IT, CS, and HR personnel perform functions that are obviously essential to the company as a whole.⁶

⁶ Prepared Direct Testimony of Thomas F. Smegal, 4.

Cal Water has provided testimony that convinces us that the IT/HR Building Renovation Costs were incurred in furtherance with the policies articulated in Pub. Util. Code Section 451.

7.3. The Settlement is in the Public Interest

The Commission has acknowledged that there “is a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation.”⁷ The Settlement has put an end to the dispute between Cal Water and DRA, thus allowing both sides to avoid the cost of a trial, the result of which is an uncertainty for the Settling Parties. As such, the Settlement furthers California’s public interest in resolving disputes.

In addition, as part of its mission statement, the Commission states that it “serves the public interest by protecting consumers and ensuring the provision of safe, reliable utility service and infrastructure at reasonable rates, with a commitment to environmental enhancement and a healthy California economy.”⁸ As noted, *supra*, Thomas Smegal testified that the renovation of the IT/HR Building will ensure that the personnel in the IT/HR Building who provide technical, customer service, and human resources services to all Cal Water employees, will be able to do their work safely and efficiently. This, in turn, allows Cal Water to maintain the safety and reliability of its water services to its ratepayers.

⁷ D.88-12-083, 30 CPUC 2d 189, 221.

⁸ www.cpuc.ca.gov.

7.4. The Settlement has the Unanimous Sponsorship of all Active Parties

Cal Water's positions reflect those of our regulated IOUs, who are required to provide safe, reliable service to their customers at just and reasonable rates. DRA reflects the views of California ratepayers, and its mission is to ensure that ratepayers are charged fair, reasonable, and legal rates for their services. Given the varying interests of the Settling Parties, we believe that their agreement to this Settlement is fairly reflective of the affected interests.

7.5. The Settlement Conveys Sufficient Information to Allow the Commission to Discharge its Regulatory Obligations with Respect to the Settling Parties and their Interests

The Settlement, when combined with the Application, Protest, and supporting documents, collectively has sufficient factual information to allow this Commission to decide if the Settlement should be approved and if the Application should be granted.

In sum, we find that the Settlement should be approved.

8. Cal Water's Application Should Be Granted as it Satisfies the Requirements of Rules 2 and 3.2 of the Commission's Rules of Practice and Procedure

Rule 2 of the Commission's Rules of Practice and Procedure requires the applicant to provide the necessary background information regarding the applicant. Additionally, Rule 3.2 states that to receive authority to increase rates, the Application must contain specified categories of documentation that must be annexed thereto. In our review of Cal Water's Application, we find that the requirements of Rules 2 and 3.2 have been satisfied.

8.1. Corporate Information and Correspondence

The Application satisfies Rules 2.1(a) and 2.1(b) by providing Cal Water's legal name and designated address for correspondence.⁹

8.2. Organization and Qualification to Transact Business

The Application satisfies Rule 2.2 by providing Cal Water's Restated Articles of Incorporation that have been certified by the California Secretary of State, and were filed with the Commission in connection with A.96-12-029.¹⁰

8.3. Balance Sheet and Income Statement

The Application satisfies Rule 3.2(a)(1) by attaching Cal Water's balance sheet and statement of income as of September 30, 2011.¹¹

8.4. Statement of Presently Effective Rates

The Application satisfies Rule 3.2(a)(2) by providing its current relevant tariffs.¹²

8.5. Proposed Increases or Changes

The Application satisfies Rule 3.2(a)(3) by providing a statement of the proposed increases or changes which will result in increases.¹³

8.6. Summary of Earnings

The Application satisfies Rule 3.2(a)(4) and (5) by providing a summary of earnings.¹⁴

⁹ Application at 3.

¹⁰ *Id.*

¹¹ Application, Appendices A and B attached thereto.

¹² *Id.* Appendix D attached thereto.

¹³ Direct Testimony of Thomas F. Smegal.

¹⁴ Application, Appendix C attached thereto.

8.7. Notices and Proofs of Compliance

Cal Water has agreed to comply with Rule 3.2(b)-(d)'s notice requirements and will file the associated proofs of compliance.¹⁵

In sum, Cal Water's Application should be granted.

9. Categorization and Need for Hearings

In Resolution ALJ 176-3297 dated July 12, 2012, the Commission preliminarily categorized this Application as Ratesetting, and preliminarily determined that hearings were necessary. The scoping memo dated November 26, 2012 confirms the categorization and need for hearings. Because of the adoption of the Settlement, the hearings determination is changed to state that no evidentiary hearings are necessary.

10. Comments on Proposed Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Pub. Util. Code and Rule 14.6(c)(2), the otherwise applicable 30-day period for public review and comment is waived.

11. Assignment of Proceeding

Catherine J.K. Sandoval is the assigned Commissioner and Robert M. Mason III is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Cal Water is a corporation organized and existing under the laws of the state of California. Its principal place of business is located at 1720 N. First Street, San Jose, California 95112.

¹⁵ *Id.* at 5.

2. Cal Water's Restated Articles of Incorporation have been certified by the California Secretary of State. The Restated Articles of Incorporation were filed with the Commission in connection with A.96-12-029.

3. This application was filed by Cal Water consistent with D.10-12-017, Attachment C (Further Amended Settlement) at C-470 to C-471.

4. DRA protested this Application.

5. On March 4, 2013, Cal Water and DRA filed a Joint Motion requesting approval of the proposed settlement agreement, attached hereto as Attachment A, which addressed proposals made in Cal Water's application and the issues raised by DRA in its responses.

Conclusions of Law

1. All issues in this proceeding are encompassed by, and resolved in the Settlement.

2. The parties to the Settlement are all of the active parties in this proceeding.

3. The parties are fairly reflective of the affected interests.

4. No term of the Settlement agreement contravenes statutory provisions or prior Commission decisions.

5. The Settlement is reasonable in light of the record, is consistent with law, and is in the public interest.

6. The Settlement fully resolves and settles all disputed issues in this proceeding.

7. The Settlement should be approved.

8. For the purposes of resolving Cal Water's Application, it is reasonable for Cal Water to include capital costs of \$5,734,400 for Project ID 16992 in the rates that will be set in A.12-07-007.

9. Adoption of the Settlement has no precedential status for subsequent applications by Cal Water.

10. The requirement for a 30-day period for public review and comment should be waived, pursuant to Pub. Util. Code Section 311(g)(3) and Rule 14.7(a).

11. Cal Water has provided the necessary balance sheet and income statement required by Rule 3.2(a)(1) of the Commission's Rules of Practice and Procedure.

12. Cal Water has provided the necessary statement of presently effective rates required by Rule 3.2(a)(2) of the Commission's Rules of Practice and Procedure.

13. Cal Water has provided the necessary statement of proposed increases or changes which will result in increases required by Rule 3.2(a)(3) of the Commission's Rules of Practice and Procedure.

14. Cal Water has provided the necessary summary of earnings required by Rule 3.2(a)(4) and (5) of the Commission's Rules of Practice and Procedure.

15. No hearings are necessary.

16. Application 12-06-016 should be closed.

17. This decision shall be effective today.

O R D E R

IT IS ORDERED that:

1. The Settlement Agreement between California Water Service Company and the Division of Ratepayer Advocates, attached hereto as Appendix A, is approved.

2. Within 30 days of the Commission's final decision approving the Settlement Agreement, California Water Service Company (U 60 W) shall submit a Tier 2 advice letter requesting authority to impose a surcharge to begin

recovering the revenue requirement associated with the General Office capital costs of \$5,734,400 for Project ID 16992.

3. California Water Service Company's Application for authority to recover costs associated with general office building renovation is granted.

4. For the purposes of resolving California Water Service Company's Application, the capital costs for Project ID 16992 that may be incorporated into the rate base for General Office in Application 12-07-007 is \$5,734,400.

5. Application 12-06-016 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX A
MOTION TO ADOPT SETTLEMENT